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November 19, 2004

Timothy C. Phillips, Esq.
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202

Re: *Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges So As to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful In Furnishing Water Service to Its Customers, Docket No. 04-00288.*

Dear Tim:

Enclosed please find a copy of original responses to questions 8, 9, 13, 19 and 22 in regards to the Consumer Advocate's Interrogatories with respect to Tennessee American's petition to increase rates, which was filed on September 10, 2004. These responses were previously furnished to you by email from Paul Diskin, on behalf of Tennessee American Water Company, to Michael Chrysler on November 8, 2004.

Should you have any questions, please do not hesitate to contact me at the telephone number listed above.

Very truly yours,


R. Dale Grimes

RDG/tn
Enclosures

cc. ☐ S. Dillon
P. Diskin
M. Miller

**Interrogatories and Requests for Production
Of Documents by the
Attorney General (First Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

8. Q. PROVIDE SUPPORTING WORKPAPERS DETAILING THE EMPLOYEES PER CUSTOMER AND O&M COSTS PER CUSTOMER PER MONTH FOR THE PAST THREE YEARS AS REFERENCED ON PAGE 4 OF MR. WATSON'S TESTIMONY AS A MANAGEMENT BENCHMARK METRIC. PROVIDE THE DETAIL (BY DEPARTMENT) OF THE NUMBER OF EMPLOYEES USED IN THE EVALUATION.

Response:

- A. The attached analysis is the basis for the statement in Mr. Watson's testimony.

	<u>#Customers</u>	<u>Associates</u>	<u>No. of Customers per Associate</u>
Customers Year End 1999	69,470	138	503
Customers Year End 2000	69,886	134	522
Customers Year End 2001	69,790	129	533
Customers Year End 2002	70,372	129	546
Customers Year End 2003	71,059	109	652
Customers at Filing 8/20/04	71,966	106	676

Data on employees per department is shown on the schedule attached to question 12.

Please see attached schedule that details O&M costs per month from January 2002 to current.

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Tennessee American Water												
Period Ending	1/31/2002	2/28/2002	03/31/02	04/30/02	05/31/02	06/30/02	07/31/02	08/31/02	09/30/02	10/31/02	11/30/02	12/31/02
Operating and Maintenance Expense (USGAAP)	\$ 1,290,506	\$ 1,058,759	\$ 1,182,864	\$ 1,161,581	\$ 1,226,527	\$ 1,050,095	\$ 1,257,436	\$ 1,315,851	\$ 1,222,326	\$ 1,315,348	\$ 1,179,972	\$ 1,104,248
Customers at Month End	70,072	70,072	70,140	70,232	70,286	70,539	70,630	70,582	70,733	70,701	70,520	70,372
O & M Cost per Customer monthly	\$ 18.42	\$ 15.11	\$16.86	\$16.54	\$17.45	\$14.89	\$17.80	\$18.64	\$17.28	\$18.60	\$16.73	\$15.69
Period Ending	01/24/03	02/21/03	03/28/03	04/25/03	05/23/03	06/24/03	07/26/03	08/22/03	09/26/03	10/24/03	11/21/03	12/12/03
Operating and Maintenance Expense (USGAAP)	\$ 1,043,140	\$ 1,261,317	\$ 1,497,548	\$ 1,225,014	\$ 1,201,692	\$ 1,368,282	\$ 1,193,867	\$ 1,267,275	\$ 1,505,710	\$ 1,343,594	\$ 1,123,756	\$ 1,234,466
Customers at Month End	70,415	70,552	70,620	70,819	70,996	71,034	70,957	71,142	71,229	71,236	71,263	71,059
O & M Cost per Customer monthly	\$14.81	\$17.88	\$21.21	\$17.30	\$16.93	\$19.26	\$16.83	\$17.81	\$21.14	\$18.85	\$15.77	\$17.37
Period Ending	01/30/04	02/27/04	04/02/04	04/30/04	05/21/04	06/25/04	07/23/04	08/20/04	09/24/04	10/22/04		
Operating and Maintenance Expense (USGAAP)	\$ 1,185,005	\$ 1,442,988	\$ 1,452,433	\$ 1,370,908	\$ 1,412,809	\$ 1,499,645	\$ 1,420,440	\$ 1,347,769	\$ 1,235,455	\$ 1,223,264		
Customers at Month End	69,823	69,938	71,157	71,345	71,437	71,677	71,771	71,920	72,205	72,337		
O & M Cost per Customer monthly	\$ 16.97	\$ 20.63	\$ 20.41	\$ 19.22	\$ 19.78	\$ 20.92	\$ 19.79	\$ 18.74	\$ 17.11	\$ 16.91		

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9. Q. PROVIDE A NARRATIVE OF ANY NOTED, "TECHNOLOGICAL ADVANCES" COVERING THE PAST THREE YEARS THAT MAY "IMPROVE PRODUCTIVITY AND ADD VALUE TO THE SERVICE PROVIDED TO CUSTOMERS" AS REFERENCED ON PAGE 4 OF MR. WATSON'S TESTIMONY.

Response:

- **Management Restructuring-** Although this a normal business process, the company restructured many of the management positions at Tennessee American Water and other subsidiary companies which included the review of job positions and descriptions which were revised to reflect appropriate functional areas of the business going forward. This process included the use of external assessment process services which were relevant to supervisory/technical and professional nature of the roles and positions, and provided for applicants to apply in which they were able to meet the minimum qualifications for the posted positions. This restructuring was performed in four phases being with AWW's announcement on November 19, 2003. At the end of July 2004 and in early August 2004, twenty-two salaried positions in Chattanooga were awarded to more accurately reflect the functional areas of Network, Production, Project Management, Cross Connection Control, Non Revenue Water, Environmental Compliance, External Affairs and Corporate Social Responsibility. Eleven salaried positions were eliminated. In the reduction of the eleven positions, seven personnel retired, while four personnel voluntarily resigned and were offered a severance program.
- **Shared Services-** Although this is a normal course of business, in November 2001, most of the transactional accounting functions were transferred to the Shared Service Center in Mount Laurel, New Jersey. Three hourly positions were eliminated. However, affected employees exercised their seniority rights in the union to go to other positions in the company. Because we had vacancies in the company, no employee was terminated. There was one management position in the accounting department and that employee is still employed as a Network Supervisor, assisting the Network Superintendent and the General Network Manager with various financial analyses.
- **Call Center-** Again, this is a normal course of business, but customer phone contact and back office billing and collection functions were transferred to the

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National Call Center in Alton, Illinois effective August 4, 2003. A majority of the AWW subsidiaries have previously transferred these functions to the National Call Center. This means when customers call the toll-free number, that call will go to Alton instead of Chattanooga. At the local level then, 16 positions were eliminated (13 hourly union and 3 management). We kept six positions whose job titles were changed to field service records clerks to maintain a customer service function at TAWC, including service order processing, meter reading edits, and customer contact as required. See below under Operations Center.

- **Operations Center**-Starting in August 2003, customers began calling the national call center in Alton but the orders are being printed in Chattanooga for execution in the field. The local Operations Center is then responsible for closing (putting the data in the computer) those service orders after their execution in the field. The local center also processes all new services that require taps into water mains. In addition, it is available for any emergency calls coming from the national call center. The local operations center consisted of one management position and five hourly union positions.
- **Security**- As a result of 9/11, security has been at the forefront from that time forward. Fencing has been installed at all company facilities, including booster stations and tanks; electronic surveillance has been installed at the remote locations, and off duty security is present during nighttime operations at the treatment plant. All public tours of the treatment plant and laboratory facilities have been discontinued and access can only be provided to employees who work at those facilities. All security costs or capital expenditures are charged to a single account number for identification.
- **Service First**- The Service First Project, formerly known as the Mobile or Field Force Automation Project, allows the company to use wireless technology to dispatch crews in the field who will use this real-time technology to manage and record their work. The Service First project will also provide real-time status updates from the field. The hardware used in the field is a wireless "tough book" laptop computer mounted in the service vehicle and has been configured with the customer-information systems used by American Water and uses a wireless modem connection to receive and send data to the service crew. While we have just rolled this technology out to our customers, this technology does allow for order scheduling and routing to process work orders and to schedule appointments in a paperless work environment.

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13. Q. PROVIDE A 5-YEAR FORECAST OF INFRASTRUCTURE REPLACEMENT, DETAILING MILES OF MAINS, SERVICES, AND OTHER PLANT TO BE REPLACED BY YEAR.

Response:

A.

		2004	2005	2006	2007	2008
MAINS	AMOUNT	\$726,000	\$744,150	\$762,754	\$781,823	\$801,368
	MILES	2.5	2.5	2.5	2.5	2.5
SERVICES	AMOUNT	\$70,000	\$71,750	\$73,544	\$75,383	\$77,268
	NUMBER	120	120	120	120	120
METERS	AMOUNT	\$71,000	\$72,775	\$74,594	\$76,459	\$78,370
	NUMBER	270	270	270	270	270
HYDRANTS	AMOUNT	\$40,000	\$41,000	\$42,025	\$43,076	\$44,153
	NUMBER	20	20	20	20	20

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19. Q. PROVIDE DETAILED BUSINESS REASONS AND THE SOURCES FOR THE GROWTH IN MANAGEMENT FEES FROM \$1,693,250 FOR THE TWELVE MONTHS ENDED MARCH 31, 2003 TO \$2,492,980 FOR THE TWELVE MONTHS ENDED MARCH 31, 2004, A 47% INCREASE. ADDITIONALLY, EXPLAIN IN DETAIL WHY MANAGEMENT FEES INCREASE 23% FROM THE TEST YEAR MARCH 31, 2004 TO THE ATTRITION YEAR ENDED DECEMBER 31, 2005 AND THE SOURCES OF THE MANAGEMENT FEES.

Response:

- A. **Business reasons for the cost increases from the twelve months ending March 31, 2003 to twelve months ending March 31, 2004 are as follows:**

The major reason for the cost increase is due to the consolidated call center. Customer Service and Support expenses are \$545,000 higher than the previous test year due to the inclusion of the Tennessee operations. During the previous test year, these services were provided by individuals located in the local operations and no expenses were recorded by the Service Company. The rationale and support of the decision to move to a consolidated call center was provided in the testimony submitted by Company witness Miller in the prior proceeding at pages 20 through 24.

The second largest increase occurred in the Information Systems area. These expenses have increased by \$238,000 due to the changing technology that is available and the cost of hiring consultants or new employees who possess a specific skill set to perform those functions.

Business reasons for the cost increases from the twelve months ending March 31, 2004 to attrition year ending December 31, 2005 are as follows:

Even though the management fees amount increased by 23%, it is offset by a 19% reduction in salaries and wages for the Tennessee operations. For additional information, please refer to the testimony of Company witness Miller on pages 14 through 16.

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22. Q. RECONCILE THE AMOUNTS PROVIDED IN EXHIBIT NO.2, SCHEDULE 3, ADJUSTMENT NUMBER REFERENCE 1-18 FOR THE ATTRITION YEAR AT PRESENT RATES TO THE COMPANY'S RESPONSE AMOUNTS TO THE TRA STAFF INTERROGATORY #27 FOR THE ATTRITION YEAR ENDED DECEMBER 31, 2005.

Response:

- A. Please refer to table listed below. The information supplied in a monthly format shown in TRA interrogatory 27 was the monthly information submitted during the 2003 budget process. The information was supplied in that format since the attrition year information for a rate proceeding is done on an annual basis and not monthly.

	ATTRITION YEAR		DIFFERENCE
	2005 PLAN	2005 RATES	
OPERATING EXPENSE			
LABOR	4,956,375	4,383,883	572,492
PURCHASED WATER	39,284	15,330	23,954
FUEL & POWER	1,823,601	1,755,680	67,921
CHEMICALS	900,490	861,861	38,629
WASTE DISPOSAL	133,436	133,438	(2)
MANAGEMENT FEES	2,557,960	3,062,940	(504,980)
GROUP INSURANCE	1,668,156	1,386,004	282,152
PENSIONS	1,560,275	892,790	667,485
REG EXPENSE	83,000	58,000	25,000
INSURANCE NOT GROUP	619,000	657,000	(38,000)
CUSTOMER ACCTG	463,333	572,893	(109,560)
UNCOLLECTIBLE EXPENSE	256,980	289,530	(32,550)
RENTS	42,353	38,286	4,067
GENERAL OFFICE	265,820	193,122	72,698
MISCELLANEOUS	1,789,766	1,661,970	127,796
OTHER MAINT. EXPENSE	719,069	746,632	(27,563)
TOTAL	17,878,898	16,709,359	1,169,539